



Adviser Edge

Dealer Group Plus

PREPARED BY ADVISER EDGE

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Introducing Dealer Group Plus

As the specialised investment classes covered by Adviser Edge may only represent a portion of dealer groups' portfolios and Approved Product Lists, they may not justify dedicated staffing; however, it is in these areas that specialised knowledge and understanding is of the utmost importance.

Adviser Edge has created Dealer Group Plus to provide specialised and tailored advice to our clients, believing that it will provide significant value to your dealer group's research capabilities.

Dealer Group Plus provides bespoke advice that is specific to the needs of your clients and investment mandates. It will also facilitate speedy response times, whether in relation to questions raised via the advice channel, as a reaction to market conditions, as product characteristics change, or due to one-off issues where guidance is required (e.g. Century Funds Management vs. Becton). It is also intended to provide quality and ongoing support to internal research teams.

What is it?

Ultimately, Dealer Group Plus packages will be tailored to suit your specific needs, and can cover all or any of Adviser Edge's areas of expertise – agribusiness, property and structured products.

The following matrix outlines the various components of the Dealer Group Plus package. These elements can be refined to ensure you get the service that matches your needs.

It will be the responsibility of Adviser Edge to initiate or schedule the majority of these services, while dealer groups are able free to make contact with analysts, commission research, or request APL construction assistance as required.

To ensure that we are able to fully meet the information and advice requirements of Dealer Group Plus clients, the bulk of our advisory and other services will now be reserved primarily for Dealer Group Plus members, such as direct access to Adviser Edge analysts and Heads of Research.

Property

- Teleconference on sector reviews
- Bi-annual property strategy session
- Global property sector in-house presentation
- Quarterly property bulletin
- Strategic allocation advice – conference call, or in-house for key sector reviews
- Commissioned research
- APL construction
- Direct access to senior analysts and Louis Christopher

Structured Products

- Scheduled conference call whenever rating released
- Ability to commission research
- Annual comparative report
- Structured products and alternative equities workshops
- Strategic planning advice and APL construction
- Direct access to senior analysts and Geoff Watkins

Agribusiness

- Opportunity to accompany Adviser Edge on site inspections (by request or invitation)
- Annual MIS manager solvency report
- MIS quarterly update
- Scheduled conference call whenever rating released (focus on client suitability)
- APL construction
- Strategic allocation advice
- Ability to commission research on past products
- Direct access to senior analysts and Shane Kelly

There is a direct cost associated with providing advice to dealer groups, and therefore advice provided to general users of Adviser Edge research will be limited primarily to accessing rating reports.

It should be noted that the 'commissioned research' component of this offering is intended to cover products where the issuer has declined to submit to Adviser Edge's formal research and rating process, or relating to issues your dealer group may be having with historical projects.

Research commissioned by dealer groups do not carry a formal star rating, instead functioning as general guidance on a products APL suitability, or as a precursor to the issuer consenting to a formal rating report.

Why use Dealer Group Plus?

Choosing the right products

While Adviser Edge's formal research reports are of great value when choosing between investments and understanding the inherent risks of a product, the information provided is not tailored and does not reflect the portfolio construction ideologies adhered to by individual dealer groups.

Additional access to the key analysts who generate the reports and the divisional heads that provide oversight and industry experience can therefore be invaluable. As part of a select number of clients participating in the Dealer Group Plus service, your research personnel, investment committees and senior management – all of whom may be making either strategic or product-specific decisions – have the ability to tap into the Adviser Edge knowledge base.

The ability to call on Adviser Edge's team for consultation at any time considerably broadens the skill base of any dealer group research team or investment committee.

The right answers when you need them

Given the fast-paced market environment, actionable advice can be the difference between favourable and a disastrous outcomes. As markets move, economic conditions vary, issuer credit risk changes, or product features are adjusted, decisions to retain, divest, or adjust holdings in specialised investment areas must be made.

Adviser Edge can assist you to understand the implications of a changing environment. Our ability to provide recommendations and guidance is paramount to the advice that dealer groups pass onto their advisers – for example, should investors stay the course, reduce exposure, fight for change, or divest while they can?

Case Study

Strategic Structured Product Advice

Adviser Edge, through strategic partner Path Independent, was asked by the head of research at a prominent dealer group to present our thoughts on the structured products that exist in the variable annuity space, and more importantly help the committee place these products within the overall advice recommendations. Having rated a number of the products in the area we had a strong understanding of how the various products worked, the strengths and weaknesses of each product, and how they compared to alternative possibilities, such as shorter-term protected equity solutions.

The committee had some familiarity with these products and, given their long-term nature and costs, hesitated in supporting them as the committee felt that the products did not match the dealer group's advice philosophy and life-cycle asset management process. We were able to support their initial hesitations with concrete numbers, and then working together devised a number of investment alternatives that could strategically compete in the space. The dealer group eventually provided their advisers and investors with an alternative solution, which over time could lead to a better investment outcome.

This consultation with Path Independent gave the strategic advice committee the ability to support their recommendations, helped to devise a bespoke strategy based on their capabilities and licenses, and addressed concerns and desires that were filtering up the advice channel from investors that were exposed to various marketing campaigns.

The Dealer Group Plus service aims to assist not only in choosing the right investment, but also ensuring that this choice remains the right one over time. Dealer Group Plus also offers the best means to make any recommended investment changes, should they become necessary.

Industry overview

Adviser Edge has regularly been commissioned to produce industry survey and comparison reports that are not publicly disseminated, such as the annual Structured Product Comparative Report, or the Commercial Property Sector Bulletin. As part of the Dealer Group Plus package, these reports are made available to clients.

Furthermore, as part of the service, dealer groups receive quarterly non-public updates in Adviser Edge's key areas of expertise, which will cover any important developments, changes in the marketplace that may affect dealer groups,

and new regulations or tax considerations across the Property, Structured Products and Agribusiness sectors.

Advice support

While understanding investment features is important, it is also necessary to ensure that they are properly matched to the right investors, in context to portfolio strategy. We will do this by providing strategic and tactical advice relating to new and existing investments.

The Dealer Group Plus service provides support through direct engagement with your research team and investment committee. Additionally, Adviser Edge's research heads and senior analysts will be available to participate in professional development days or conferences upon request.

Adviser Edge's ultimate focus has been, and remains, to provide advice that enables advisers to meet the needs of their clients. The Dealer Group Plus package is intended to ensure that advisers have access to the best investments for their clients, and to support dealer groups in the process.

Case Study

Change of Responsible Entity (Century versus Becton)

In August 2010 Adviser Edge was engaged by a dealer group client to evaluate merits of replacing Becton Investment Management (Becton) as Responsible Entity (RE) for two unlisted property trusts. In taking on the role of independent arbiter, Adviser Edge was tasked with evaluating the merits of appointing Century Funds Management (Century) as RE.

Adviser Edge undertook a comparative analysis of Becton and Century, to determine if change was warranted and likely to be in the best interests of investors. At the outset, Adviser Edge identified a number of critical tests that Century would need to meet if positive guidance was to be given.

These key tests related to:

- Financial stability
- Property management experience, capabilities and track record
- Debt refinancing capabilities

With a tight deadline to meet, Adviser Edge allocated significant resources to the task. This allowed the analysis to be completed with sufficient time for the guidance (affirmative for Century) to be disseminated to advisers throughout Australia, who had clients affected by the vote to change RE.

This work clearly illustrates the value adding approach of Dealer Group Plus. While the work was commissioned by a specific dealer group client, Adviser Edge was able to provide the guidance to other dealer groups for the benefit of their advisers and clients.

Why Adviser Edge?

After nearly a decade in the investment research industry, Adviser Edge has built a strong reputation for independence and the exacting nature of the ratings that we release. With offices in both Melbourne and Sydney, Adviser Edge provides research and advice in our specialist investment areas to many of Australia's leading financial services companies.

Dealer Group Plus has been developed to play directly to Adviser Edge's strengths as a ratings house; these are characteristics that we feel make us ideally placed to offer ongoing and customised support.

- Our analysts bring diverse skills and industry-specific experience to their roles. We are not 'just' general researchers – we are experienced specialists in our fields.
- We strive to maintain a strong investor focus for our research.
- Our analyst team is directly accessible to our research clients.
- We rate harder than any other research house in our chosen markets, providing greater product differentiation.
- We don't stand still. Improving research processes and methodologies is required to remain relevant.
- We focus on providing customised advice for the benefit of dealer groups and investors.

Agribusiness

In addition to issuing ratings reports on new projects, over the past three years there have been a number of instances where Adviser Edge's agribusiness team has provided advice and guidance to dealer groups regarding restructuring of agribusiness projects.

Our work provided advisers with a clear understanding of the issues at play, allowing them to give advice to clients affected by issues that were, in every instance, beyond their control. In some instances, Adviser Edge's work related to projects that had entered administration, while in others we assisted dealer groups to get better outcomes for clients invested in solvent projects.

Some examples included supporting the Gunns proposal to take over as RE for many of the Great Southern projects, supporting the Boundary Bend share offer for affected Timbercorp Olive projects, supporting the removal of Australian Olives Limited as RE for a number of under-

Case Study

Responsible Entity replacement for Great Southern plantation projects

In early 2009 investors in Great Southern plantation pulpwood projects were given an opportunity to vote for the replacement of Great Southern Asset Management Limited (GSAML) as Responsible Entity (RE). In all there were three bidding parties wanting to replace GSAML – Gunns Limited, Pulpwood Plantations Pty Ltd, and Blacktree Limited, each with a unique proposal and varying attributes.

Adviser Edge acted independently to determine which proposal had the most merit from an investor's perspective. In undertaking this work, Adviser Edge focused on financial outcomes for investors, forestry management capabilities, and long-term stability. Ultimately, guidance was provided to dealer group clients supporting the appointment of Gunns as replacement RE for a majority of the projects.

The guidance to vote yes for Gunns was used by dealer groups to provide direct advice to clients. Consequently, Gunns was successfully voted in to replace GSAML. Without clear guidance from Adviser Edge, there may have been a situation in which no proposal was successful, which would have been to the detriment of investors.

performing schemes, and recommending replacement of Primary Securities as RE for NTT Mahogany to overcome inherent conflict in that project's management structure.

In addition to this, throughout the research process Adviser Edge has always had the best interests of investors in mind. This means that when Adviser Edge sees an opportunity for a manager to make a change to a project's structure for the benefit of investors, we will proactively work to encourage such change. There are numerous instances where Adviser Edge's involvement has been positive for investors, whether through improved investment protection, lower fee structures, extended investment terms, improved corporate governance, or better apportionment of risk between the manager and investor.

Property

Headed by Louis Christopher, the Property Division of Adviser Edge has two main business lines – ratings and strategic advice. In the first instance we provide ratings on a range of property sectors, including sectors such as global and domestic property securities, hybrid and direct property funds, and mortgage backed securities funds. We support these ratings through the provision of strategic and tactical

advice to dealer groups, particularly with reference to asset allocation and APL refinement.

As mentioned previously, the mandate of the property team has been broadened this year to include global infrastructure. The infrastructure review is expected to commence in October/November and be completed in Q3 FY2011.

Adviser Edge's approach to property fund ratings is a blend of qualitative and quantitative analysis. We have garnered a reputation as a hard but fair ratings house. This effectively creates an internal filter in the research process, eliminating a number of funds in each sector that decline to be rated based on the expectation of a poor outcome. Our aim is to clearly differentiate the good projects from the bad or average, thereby streamlining the APL selection process and allowing dealer group research teams to spend more time on strategy development and tactical allocation.

From our perspective the research report and rating is just the first stage of the investment process, designed to provide a clearer understanding of the risks and merits of each project. Through Dealer Group Plus, Adviser Edge aims to help you understand the strategic and tactical implications associated with placement of one or more property funds from different sectors on an APL. In addition to this, you will have access to advice on issues associated with historical property investments which may have underperformed or are undergoing change, such as in the case of Becton Office Fund No. 2, or Orchard Funds Management. Our aim is to keep you informed. Sometimes we will initiate the flow of information, while at other times we will act on request to ensure that you are kept fully informed.

As part of its commitment to providing ongoing support to dealer groups, Adviser Edge has launched a quarterly property bulletin, the first issue of which was released on 17 August 2010. From Q2 FY2011, the property bulletin will only be available to Dealer Group Plus clients and their advisers.

The purpose of the property bulletin is to give investors a general overview of the financial market, especially focusing on areas affecting property investors. The bulletin will also provide advisers with Adviser Edge's strategic and tactical asset allocation advice towards different geographic regions and the key sectors that make up the property investment universe.

Structured products

Adviser Edge has mandated Path Independent to perform all product assessments and ratings on any structured products or similar investments.

Headed by Geoff Watkins, Path Independent provides independent ratings and advice on Australian domiciled structured investment products.

Path Independent specialises in financial products that are structured, capital protected, rules-based, index-linked, or thematic. These products are customised instruments, and are designed to address specific needs that cannot be met by the standardised financial instruments available in the markets. The approach adopted by the structured products division is highly quantitative, focusing on identifying products that have a higher probability of delivering in line with the structured outcome desired.

Like Adviser Edge, Path Independent has a reputation for being hard to please. We do not see it that way. What we want to see is more well-structured products with a higher probability of decent to good outcomes for investors. Rewarding mediocrity through a standardised ratings distribution is not good enough for Path Independent. Consequently the percentage of products that achieve a 4 star rating or better is very low in comparison to peers. This is even more so given that a number of issuers decline to submit their products for rating due to the knowledge that they are unlikely to appreciate the outcome.

To overcome this issue, Path Independent has over the past two years issued a comparative report, which directly compares the features of all market-active products in the year-end period. This report has been an excellent adjunct to the full reports, as it allows dealer group research teams and investment committees to clearly evaluate the relative merits of each product.

Again the ratings are just one element of the work Path Independent is doing with dealer group clients, A number of dealer groups are using the team's skills and experience, particularly those of Geoff Watkins, to understand the relative merits of each complex structure, allowing them to appropriately match APL selection to the needs of their client base.

One of the benefits of the Dealer Group Plus service is the ability to have Path Independent complete a preliminary assessment of a structured product that has not been rated. This process allows the dealer group to decide whether the product has APL merit and, hence, whether the issuer should be requested to submit to the full Adviser Edge ratings process.

An example of where this worked effectively occurred during FY2009, when Path Independent was requested by a dealer group to complete a review of AXA North, which at that time was declining to participate in a formal rating.

Path Independent completed the report, which identified that the product's client suitability was in fact quite narrow, which was in stark contrast to the way in which the product was marketed. Upon completion, the research was provided to all dealer group clients to aid their decision-making. Subsequently, AXA North agreed to submit its FY2010 product to a full review and rating.

How Much Does Dealer Group Plus Cost?

The cost associated with Dealer Group Plus is influenced heavily by the level of service required by a dealer group, as well as the active or potential future exposure to the three key sectors covered by Adviser Edge.

In order to allow us to add most value, we allow you to nominate the sectors you want to have supported by Dealer Group Plus.

Option 1:

Single sector (e.g. Property only)

Option 2:

Two sectors (e.g. Property plus one either agribusiness or structured products)

Option 3:

Three sectors (e.g. Full coverage)

For actual subscription costs, please contact Shane Kelly in our Melbourne office for further details.

Payment can be made under the following options:

1. Payment in full at the time of subscription
2. Quarterly direct debit
3. Monthly direct debit

Subscription is for a period of 12 months from the date of acceptance. Renewal forms will be sent prior to the initial year of service expiring.

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